

UNITED STATES CIVIL SERVICE COMMISSION

BUREAU OF RETIREMENT AND INSURANCE

WASHINGTON 25, D.C.

IN REPLY PLEASE REFER TO

RS:RWO:ams
YOUR REFERENCE

APR 16 1963

Mr. [redacted]
Acting President
Government Employees Health Association, Inc.
P. O. Box 463
Washington 4, D. C.

file
STAT

STAT

Dear [redacted]

The books and records of the Mutual of Omaha Insurance Company at Omaha, Nebraska, and the General Agent at Washington, D. C., applicable to the Government Employees Health Association operations under the health benefit program were examined in accordance with section 11(b) of the Federal Employees Health Benefits Act of 1959 and paragraph 9 of Contract CS 1065. Two copies of the report covering the results of the examination of the first contract term Annual Accounting Statement are enclosed.

As a result of the examination, certain adjustments were agreed to by members of my staff and officials of "Mutual" as stated in the report. These adjustments were reflected in the Annual Accounting Statement as of October 31, 1962 for the second contract period.

Please be advised that the officers and employees of "Mutual" were most courteous to, and cooperative with, the members of my staff during the course of the examination.

This report has been distributed only to your Association, with the idea that any distribution to "Mutual" would be within the purview of the management of the Association.

Sincerely yours,

Andrew E. Ruddock

Andrew E. Ruddock
Director

Enclosure

REPORT ON EXAMINATION
OF
GOVERNMENT EMPLOYEES HEALTH ASSOCIATION
CONTRACT CS 1065
FOR
PERIOD FROM JULY 1, 1960 THROUGH OCTOBER 31, 1961

Systems and Audits Office
Bureau of Retirement and Insurance
U. S. Civil Service Commission
Washington 25, D. C.

REPORT ON EXAMINATION
OF
GOVERNMENT EMPLOYEES HEALTH ASSOCIATION
CONTRACT CS 1065
FOR
PERIOD FROM JULY 1, 1960 THROUGH OCTOBER 31, 1961

The Government Employees Health Association, an employee organization with headquarters in Washington, D. C., contracted with the Commission in Contract CS 1065, under section 4(3) of the Federal Employees Health Benefits Act of 1959 to offer members of the Association an indemnity-type health plan for the period July 1, 1960 to October 31, 1961. Representatives of the U. S. Civil Service Commission examined the Plan's accounting statement and supporting records of the offices of the Underwriter and Underwriter's Agent as of October 31, 1961 for the contract period then ended.

General Comments

Subscriptions received by the Association are forwarded to the Underwriter. The Association maintains all eligibility records, receives, processes, and pays all claims, and maintains the paid claims files. The Underwriter contracts with the Association for the benefits to be provided, maintains the financial records of experience and prepares the accounting reports required by the Commission. The Underwriter reimburses the Association for benefits paid by the Association.

The Underwriter's records were maintained in accordance with generally accepted accounting principles; however, administrative charges made against the contract were determined in their entirety by use of a Retention Formula which did not directly relate expenses to the work performed.

Accounting Statement

The Accounting Statement and supporting schedules that were prepared for the Plan by the Underwriter for the first contract period are incorporated herein.

Page Denied

Next 1 Page(s) In Document Denied

STAT

Health Benefits

Health Benefits Charges paid by the Plan amounted to [] of which 63% represented hospitalization charges and 37% represented physicians' and related charges. Benefits reimbursements made by the Underwriter's Agent were supported by the Association's claim worksheets and their covering transmittals. Each of the transmittals covered a maximum of 20 claims.

The Underwriter post-audits all claims amounting to [] or more and those claims of lesser amounts are test-checked. The agent issues drafts for the sum total of all claims under each transmittal and the claims are not considered paid until the Underwriter receives the cleared draft from its bank at Omaha, Nebraska.

Administrative Charges

The contract provided that administrative charges allocated to the contract shall be the actual, necessary accrued (incurred) expenses determined on an equitable and reasonable basis, with proper justification and accounting support, and required the Plan to maintain financial records under generally accepted principles.

Underwriter's Administrative Charges - The Accounting Statement showed \$34,238 as the administrative expense of the Underwriter which was within the 2.0% of subscription charges allowed by the terms of the contract. A schedule showing the distribution of the charge to various functions and expense accounts was furnished. During the examination of the accounting support for these charges it was found that the total administrative expense of the Underwriter had been determined by use of a "Retention Formula" and then allocated to the various expense accounts as shown on the schedule.

The formula gave no recognition to actual necessary incurred expenses of either the Underwriter or its Agent.

During a discussion with the Underwriter's representatives they proposed to devise a new method more responsive to the actual costs of the contract. This was done and the revised method was tentatively accepted. It is believed that the revised reporting method will permit any economies in administration in the future to be reflected in the expenses charged to the plan while under the Mutual retention formula there would not necessarily be a direct relationship between actual lower operating expenses and the amounts chargeable to the plan. Application of the revised method to the first contract period's operations resulted in an increase of [] in the administrative expense of the Underwriter. (See Appendix B). It also resulted in an upward revision of the tax expense as noted below.

The adjustments were made by the Underwriter in the second contract period and appropriately reflected in the Special Reserve. (See Appendix A).

Taxes

The contract provided that the actual accrued amount of taxes that was directly attributable to the contract may be charged as tax expense. The 1% Federal Premium Tax was not charged as a tax expense. It was stated to have been included in the "Formula" under the Underwriter's administrative expense. However, under the revised method of determining the Underwriter's expense, the 1% Federal Premium Tax attributable to the contract in the amount of

[] became a tax expense in addition to the State Premium Taxes of

This increase was reported by the Underwriter in the second contract period and was appropriately reflected in the Special Reserve.

(See Appendix A).

STAT

Special Reserve

The Accounting Statement submitted by the Plan for the first contract period showed a deficit of [] in its Special Reserve. After giving consideration to the adjustments suggested herein, the Special Reserve would show a deficit of [] as of the end of the first contract period. (Appendix A).

STAT

Subscription Charges

The examination disclosed that subscription charges were being paid by the Organization to the Underwriter via a third party (Underwriter's Agent at Washington, D. C.). Numerous delays of transmission of subscription charges from the Agent to Mutual were noted. This procedure was contrary to the terms of Mutual's policy with the Organization which required that such payments were to be made by the Organization directly to the Underwriter at its Home Office in Omaha, Nebraska. It is proposed that subscription charges be transmitted in the manner prescribed by the terms of Mutual's policy.

Scope of the Examination

Subscription Charges (received and accrued), as shown on the Accounting Statement, were verified to the Commission's records and to those of the Underwriter.

To evaluate the Underwriter's administrative expenses, the amounts reported were verified to those computed by application of a Retention Formula; and, a review was made of the revised method that was used to compute those expenses that were finally charged to the contract.

The calculation of the Risk Charge was verified.

Page Denied

Next 1 Page(s) In Document Denied